

# **Current Economic Conditions in the Eighth Federal Reserve District**

## **St. Louis Zone**

December 17, 2008

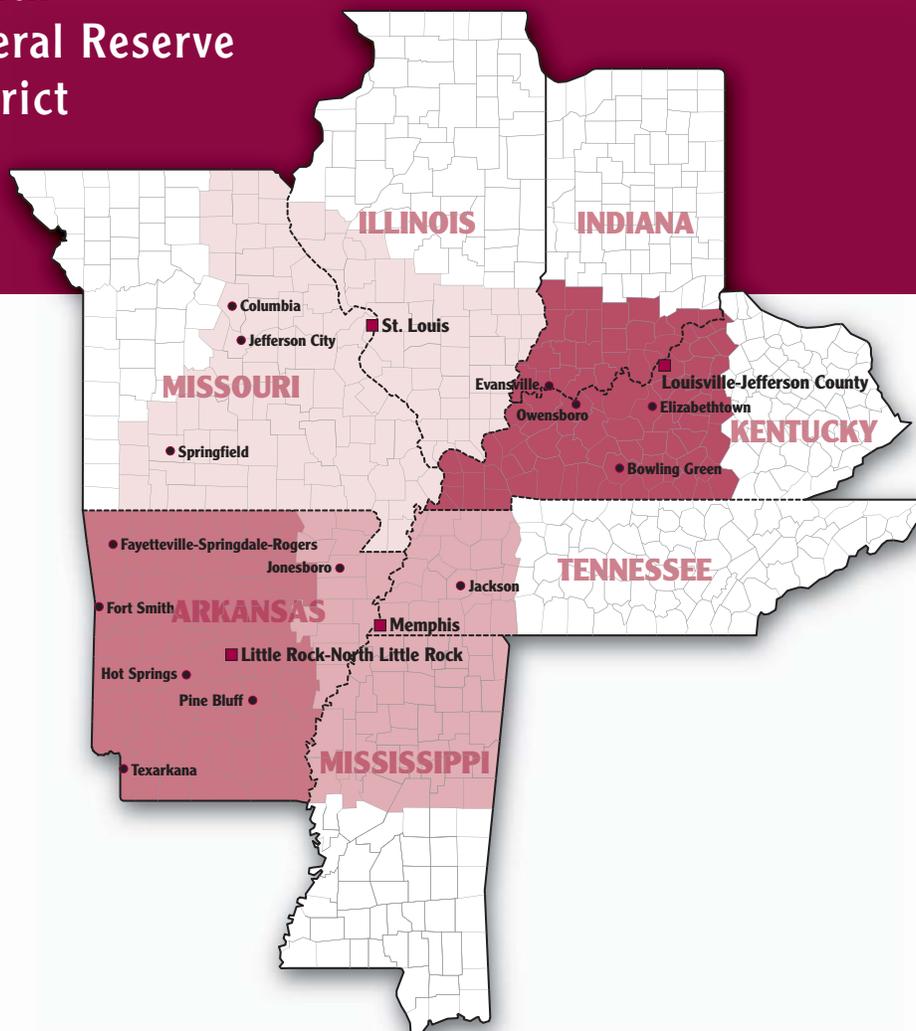
Prepared by the  
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Federal Reserve Bank of St. Louis

# **CRE8**

Center for Regional Economics—8th District



## Eighth Federal Reserve District



This report (known as the *Burgundy Book*) summarizes information on economic conditions in the St. Louis zone of the Eighth Federal Reserve District (see map above), headquartered in St. Louis. Separate reports have also been prepared for the Little Rock, Louisville, and Memphis zones and can be downloaded from the CRE8 website ([research.stlouisfed.org/regecon/](http://research.stlouisfed.org/regecon/)).

The first section of this report summarizes information provided by various contacts within the District and is similar to the type of information found in the Fed's *Beige Book* ([federalreserve.gov/fomc/beigebook/2008/](http://federalreserve.gov/fomc/beigebook/2008/)). The period covered by this section coincides roughly with the two *Beige Book* periods immediately preceding this report. The second section includes government-provided data for the metro areas and states of the St. Louis zone. These data are the most recent available at the time this report was assembled.

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# St. Louis Zone Report—December 17, 2008

Economic activity in the St. Louis zone remains weak. Retail activity has been down across the board, and retailers are mostly pessimistic about the near future. Declines in manufacturing and services have continued, as firms in many sectors report plans to reduce employment and/or output. Residential real estate remains weak, although commercial real estate markets have been more stable. Bank lending has fallen as lenders report tighter standards. The agricultural sector remains a bright spot, with generally higher yields and good crop conditions.

## Consumer Spending

Retail sales reports from general retailers and car dealers for October and the first half of November were mostly negative. Eighty-six percent of general retailers and 100 percent of car dealers indicated that sales were down compared with the same period in 2007. Nearly all general retailers noted that sales were below expectations. Among car dealers, one-third reported increased sales of used cars relative to new cars and one-third reported increased sales of low-end cars relative to high-end cars. Half reported recent increases in rebates, and two-thirds reported more rejections of finance applications. The sales outlook for the remainder of 2008 was mostly pessimistic: 57 percent of the general retailers and 100 percent of the car dealers expected sales to decrease over 2007 levels.

## Manufacturing and Other Business Activity

Manufacturing in the St. Louis zone continued to decline in October and the first half of November. Firms in machinery, automobile parts, glass/glass product, primary metal, and apparel manufacturing all announced plans to decrease production and lay off employees. In addition, firms in cement/concrete product manufacturing and animal slaughtering/processing announced plans to close plants in the zone. The service sector in St. Louis also continued to decline during the period, with firms in the medical services, information services, business services, and government services sectors all announcing plans to lay off workers and decrease operations.

## Real Estate and Construction

In St. Louis, compared with the same periods in 2007, October year-to-date home sales were down by 14 percent, while October year-to-date single-family housing permits were down by 42 percent. Between the second and third quarters in St. Louis, the vacancy rates fell for industrial space and suburban and downtown office space. A contact in St. Louis reported that the industrial real estate market is stable and that developers are not overbuilding. A commercial construction contact in

St. Louis reported concerns over his clients' ability to finance committed future work because of current credit market conditions. A Districtwide commercial construction contact reported that backlogs are shortening and interest in new projects has slowed sharply.

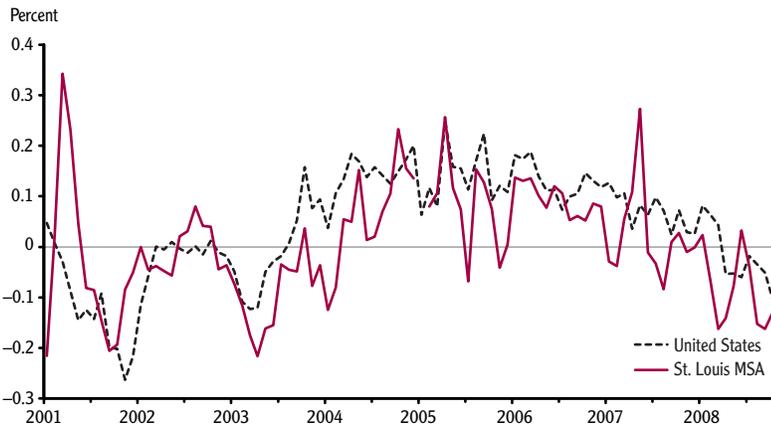
## Banking and Finance

Contacts in the St. Louis zone reported continued declines in commercial and industrial lending activity. Lending standards remained tight for these loans, with more than half of all contacts reporting tighter standards. Contacts reporting on commercial real estate loans indicated large declines in lending activity. One contact noted that deteriorating loan quality and tightening lending standards have made many banks reluctant to lend in this category. Reports indicate little to no change in lending activity in the residential mortgage loan category. Reports on consumer lending were mixed, with most contacts reporting little to no change.

## Agriculture and Natural Resources

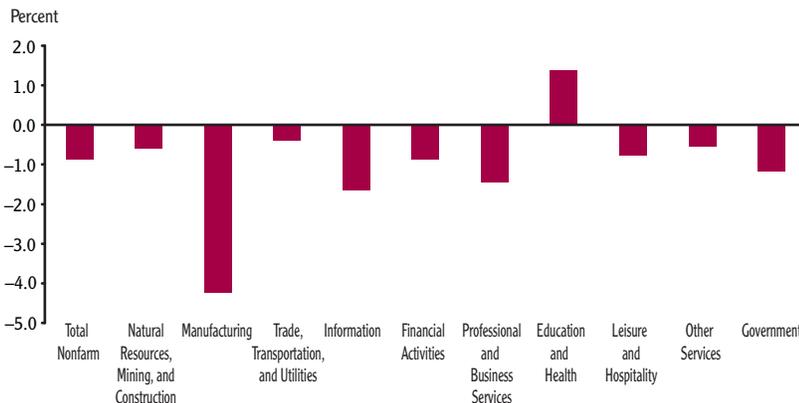
Weather conditions and moisture content prevented some farmers in the St. Louis zone from harvesting their crops on schedule. As of mid-November, Illinois farmers had harvested all of their soybeans and 88 percent of their corn and sorghum (the latter two behind schedule). Missouri farmers had harvested all of their cotton and rice but around 80 percent of their corn, soybeans, and sorghum (the latter three behind schedule). November estimates showed higher yields for corn, soybeans, and sorghum in Illinois and for soybeans, rice, and cotton in Missouri, where estimated yields for corn and sorghum are off by 1 percent. As of mid-November, farmers had planted nearly their entire intended winter wheat crop, with Illinois farmers ahead of their normal pace but Missouri farmers slightly behind schedule. Crop development was behind schedule in both states, more so in Missouri. Nearly all of the emerged winter wheat in both states—at least 97 percent—was rated in fair condition or better.

### Nonfarm Payroll Employment Growth 3-Month Average, SA, January 2001–October 2008



Payroll employment growth in the St. Louis MSA continues to underperform the country as a whole. Three-month average employment growth has tended to be negative since mid-2007, and recent job decreases have been the largest since 2003. Recent job growth in the St. Louis MSA has lagged the national rate: Over the three-month period ending in October 2008, St. Louis monthly employment growth averaged  $-0.13$  percent, while U.S. employment growth averaged  $-0.11$  percent.

### St. Louis MSA Employment Growth by Sector Year/Year Percent Change, October 2007–October 2008



On a year-over-year basis St. Louis MSA sectoral employment growth rates between October 2007 and October 2008 were negative for all sectors except for education and health, while overall job growth was  $-0.9$  percent. The most-recent estimates show that job growth in the education and health sector was 1.4 percent. The largest declines were in manufacturing, which lost 4.2 percent of its jobs. Information, professional and business services, and government all showed declines greater than 1 percent.

### St. Louis Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,  
October 2007–October 2008

	Total	Goods producing	Service providing	Unemployment rate October 2008
<b>St. Louis</b>	<b>-0.86</b>	<b>-2.83</b>	<b>-0.48</b>	<b>6.9</b>
Columbia, Mo.	0.11	-5.49	0.70	4.1
Jefferson City, Mo.	-0.25	-3.92	0.29	4.9
Springfield, Mo.	0.25	-3.83	0.91	5.4
United States	-0.31	-3.35	0.28	6.1

SOURCE: Bureau of Labor Statistics.

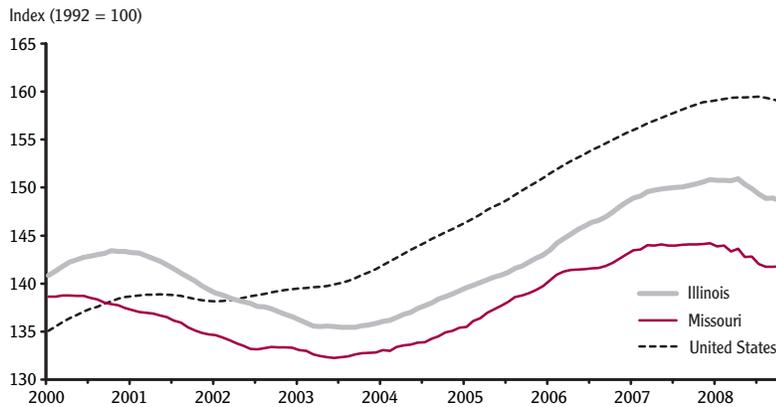
## St. Louis Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change, 2008:Q3/2007:Q3
	October 2008	Percent change	
<b>St. Louis</b>	<b>5,215</b>	<b>-44.2</b>	<b>-0.96</b>
Columbia, Mo.	581	-51.1	1.88
Jefferson City, Mo.	99	-38.1	0.91
Springfield, Mo.	1,683	-31.7	-0.25
United States	812,088	-33.2	-4.00

SOURCE: Bureau of the Census, Federal Housing Financing Authority.

Total residential building permits in October were lower than a year earlier in every MSA in the zone. The decline for every MSA was comparable to or greater than what was experienced by the country as a whole. The house price index rose slightly for Columbia and Jefferson City between the third quarters of 2007 and 2008, but fell off in the other two metro areas in the zone. Jefferson City, in particular, saw a relatively strong increase. The decline in this index for the country as a whole was much larger than for any MSA in the St. Louis zone.

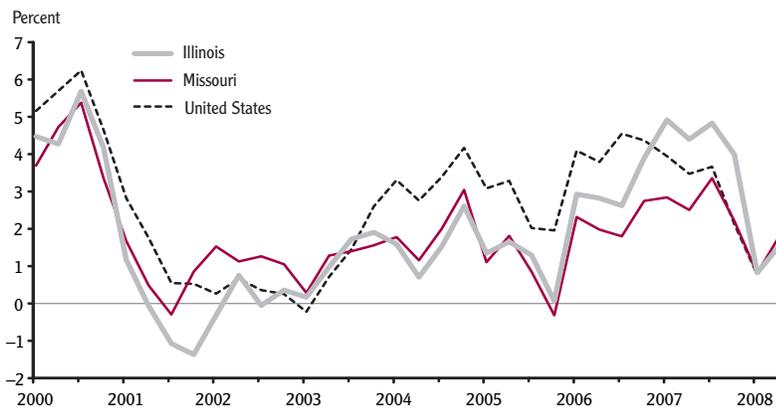
## St. Louis Area Coincident Economic Activity Index



SOURCE: Federal Reserve Bank of Philadelphia.

The Philadelphia Fed's coincident index combines payroll employment, wages and salaries, the unemployment rate, and hours worked into a single index. According to this index, labor market conditions began to soften in early 2007, several months before similar softening occurred nationwide. Throughout 2008 this index has performed better at the national level than for Illinois and Missouri: For the United States the index was unchanged through October, while it decreased by 1.5 percent and 1.7 percent for Illinois and Missouri, respectively.

## St. Louis Area Real Personal Income Growth Percent Change, Year/Year



SOURCE: Bureau of Economic Analysis.

Personal income growth in Missouri and Illinois has tended to be weaker than in the country as a whole since 2003, and income growth in Missouri had been weaker than in Illinois through most of 2006 and 2007. For the first half of 2008, however, Missouri's income growth has outpaced that of Illinois and the country as a whole, although growth has been roughly halved across the board relative to the first half of 2006.

## Year-Over-Year Percent Change in State Tax Revenue

	2007:Q3				2008:Q3			
	Personal income	Corporate income	Sales	Total	Personal income	Corporate income	Sales	Total
Arkansas	7.3	9.3	-2.5	3.2	5.7	-10.7	3.7	4.8
Illinois	5.5	-4.3	-2.9	1.3	3.7	1.5	2.5	2.7
Indiana	7.2	6.2	3.7	5.6	-1.9	-10.5	2.7	-0.6
Kentucky	11.5	-41.4	3.2	2.4	6.6	-49.8	1.6	0.4
Mississippi	9.5	14.4	-3.1	2.7	-1.9	-14.6	2.9	1.2
Missouri	7.3	-2.3	4.8	5.8	2.4	-14.5	-2.5	0.4
Tennessee	—	13.3	3.0	5.9	—	-25.2	-2.0	-4.8
United States	6.3	-2.4	3.1	4.4	1.5	-8.3	-0.7	0.1

NOTE: July-September 08/07 data are preliminary data from early-reporting states collected by the Rockefeller Institute of Government.

SOURCE: The Nelson A. Rockefeller Institute of Government/U.S. Bureau of the Census.

In all District states but Arkansas, third-quarter tax revenue growth was lower than it was a year earlier, which mirrors the national experience. For Indiana and Tennessee, total third-quarter 2008 tax revenues were actually lower than they were a year earlier. For the other District states, however, total revenue growth was stronger than the national average.

The largest declines in tax revenue growth tended to be from corporate income taxes. Every state in the District except for Illinois saw double-digit decreases in corporate income tax revenue in the third quarter of 2008 relative to a year earlier. Compared with 2007, year-over-year growth in revenue from personal income taxes was lower for all District states in the third quarter of 2008, although sales tax results were mixed.